



KAROON

Gas Australia Ltd

KAROON GAS AUSTRALIA LTD AND CONTROLLED ENTITIES
ABN 53 107 001 338

QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 31st DECEMBER 2008

Review of Operations

Highlights:

- The Poseidon-1 well, the first in a multi-well exploration program in the Browse basin spudded on January 26.
- Karoon ended the quarter with a net cash and equivalents bank balance of \$A145 million
- Major new gas discoveries in Santos basin in Brazil, close to Karoon offshore acreage.
- In Peru, Karoon was granted its initial 20% interest in the Exploration Block Z-38 by the relevant Peruvian authorities.
- Karoon and its joint venture partner Vietnam American Exploration Company LLC ("Vamex") have contracted a Seabird Exploration Seismic vessel to acquire 2000 km of 2D seismic, gravity and magnetic data, which is expected to commence work in February 2009.

Browse Basin Permits

WA-314-P WA-315-P and WA-398-P

Karoon's offshore Browse basin exploration program began on January 26 when the Poseidon-1 wildcat well was spudded.

This is the start of a 200 day multi-well drilling program in the Browse basin permits WA-314-P, WA-315-P and WA-398-P for Karoon and its joint venture partner ConocoPhillips.

Karoon and ConocoPhillips are continuing the detailed engineering and geotechnical work necessary to select drilling targets and made applications to the Designated

Authority to continue work. Further applications will be made as the final locations are agreed by the Joint Venture.

As at 6:00am on the 30th January 2009 Poseidon-1 well was drilling ahead at 2269 metres true vertical depth sub-sea (TVDSS) in a 17.5 inch hole.

Karoo Gas is a 49% interest holder in offshore oil and gas exploration permits WA-314-P and WA-315-P and a 40% interest holder of WA-398-P in the Browse basin located 350 km from the North-Western Australian coastline. Karoo's joint venture partner and operator in WA-314-P, WA-315-P and WA-398-P is ConocoPhillips.

Bonaparte Basin

AC/P8

During the quarter Karoo received the approval of the State and Federal Governments for a 5 year extension on the permit.

The work program includes a range of geological studies in the primary three year term. Studies to be conducted include Controlled Source Electro Magnetic Surveying (CSEM), seismic mapping of existing data, Fault Seal Analysis and general geological assessments and modelling. If the option to progress into the secondary term is taken up, the Year Four (Secondary term) commitment is one exploration well.

Karoo is a 66.67% interest holder and operator of AC/P8 in the Bonaparte basin. Talisman Oil & Gas (Australia) Pty Limited is Karoo's joint venture partner in the permit.

Gippsland Basin

EL-4537

The Karoo technical team is continuing its economic assessment of EL-4537.

Karoo has a 100% registered interest EL-4537, located within the western on-shore Gippsland basin of Victoria

Brazil

Santos Basin Blocks 1037, 1101, 1102, 1165 and 1166

Subsequent to the end of the quarter Brazilian state owned oil company, Petrobras, announced the discovery of a potentially commercial scale gas field immediately adjacent to Karoo's offshore permits. Petrobras has revealed that this new discovery is above the salt layer with the discovery confirmed by subsequent tests.

This new discovery is the latest in a string of successful wells in the Santos Basin and highlights the potential for Karoo.

During the quarter 2639 square kilometres of 3D seismic was purchased from PGS Inveticacao Petrolifera Ltd. This seismic data will enhance Karoo's understanding of Karoo's Santos Acreage as it covers new discoveries made immediately to the south. This provides hard data on the seismic characteristics of discoveries in the immediate area, enhancing the understanding of the potential of those plays in Karoo's blocks.

During the December quarter Karoo continued its geotechnical analysis of the Santos Basin blocks with further seismic processing and interpretation of existing data. Karoo is currently conducting extensive work to fast track its exploration campaign in the Santos basin blocks.

Karoo believes that the blocks offer good exploration potential for targets in the hundreds of millions of barrels of oil and/or trillions of cubic feet of gas range.

The Santos Basin is offshore from the Santa Catarina region of Brazil, just south of Rio de Janeiro and has recently yielded multiple oil discoveries. Recent discoveries in the Santos basin include the Tupi

and Carioca oil fields 200km to the north-east, the Newton oil discovery 53km to the north-east. The Caravela and Coral fields are 70km to the south-west and the Merluza field 100km to the north-east

Karooon is a 100% interest holder of Santos Basin Blocks 1037, 1101, 1102, 1165 and 1166

Peru

Block Z-38

During the quarter Vamex continued to conduct geotechnical analysis and has tendered and awarded the 2000km 2D seismic, gravity and magnetics data acquisition program to Seabird Exploration. Acquisition is expected to commence in February 2009.

Geotechnical analysis of the existing data indicates the block is prospective for both oil and gas. Economic assessments indicate that success in this area could be rapidly brought to production due to the close proximity of existing oil and gas infrastructure in the prospective areas.

During the quarter Karooon was granted formal title of Z-38 by the Peruvian Authorities. Karooon's initial farm in obligation includes the funding of the 2000 km of 2D seismic, gravity and magnetics data acquisition. Karooon has notified Vamex of its intention to exercise its option to increase its participating interest in the block to 60% by funding the second period work program, which includes a 3D seismic survey, in the near future.

Karooon currently holds a 20% interest in Block Z-38. Vamex is the operator and 80% interest holder of the permit.

Block 144

The Peruvian Government offered Karooon block 112 in January 2008. After regulatory approval the block will be renamed Block 144. Geotechnical and commercial assessments have begun with final Peruvian regulatory approvals expected during the year.

Karooon will be a 100% registered holder of Block 144.

For further information please contact: Or

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Karoon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("current quarter")

December 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	(11,038)	(11,787)
1.3 Dividends received	(1,616)	(2,813)
1.4 Interest and other items of a similar nature received	1,243	2,809
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other - GST refunds	263	325
Net Operating Cash Flows	(11,148)	(11,466)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(140)	(206)
1.9 Proceeds from sale of: (a)prospects (b)equity investments (c)other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(140)	(206)
1.13 Total operating and investing cash flows (carried forward)	(11,288)	(11,672)

1.13	Total operating and investing cash flows (brought forward)	(11,288)	(11,672)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	203	49,873
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
Net financing cash flows		203	49,873
Net increase (decrease) in cash held		(11,085)	38,201
1.20	Cash at beginning of quarter/year to date	144,548	87,022
1.21	Exchange rate adjustments to item 1.20	10,966	19,206
1.22	Cash at end of quarter	144,429	144,429

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	172
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Directors Fees included in 1.23 : \$ 44
Consulting Fees included in 1.23 : \$ 128

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	30,000
4.2 Development	Nil
Total	30,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	15,515	38,688
5.2 Deposits at call	115,679	95,893
5.3 Bank overdraft		
5.4 Other – Security Deposits	13,235	9,967
Total: cash at end of quarter (item 1.22)	144,429	144,548

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	148,792,897	148,792,897		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow	100,000	100,000	203 cents	203 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	<i>Amount</i>		<i>Exercise price</i>	<i>Expiry date</i>
	1,745,000		295 cents	31 Oct 2010
	1,500,000		400 cents	30 Apr 2011
	1,500,000		450 cents	30 Apr 2011
	1,500,000		500 cents	30 Apr 2011
	1,105,000		400 cents	30 Apr 2010
	1,105,000		500 cents	30 Apr 2011
7.8 Issued during quarter	750,000		400 cents	30 Apr 2011
	750,000		450 cents	30 Apr 2011
	750,000		500 cents	30 Apr 2011
	1,105,000		400 cents	30 Apr 2010
	1,105,000		500 cents	30 Apr 2011
7.9 Exercised during quarter	100,000		203 cents	203 cents
7.10 Expired during quarter	210,000		203 cents	203 cents
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: 30 January 2008
(Company secretary)

Print name: ..Scott Hosking.....

Notes

1 The quarterly report provides a basis for informing the market how the entity’s activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

6 **Deposits at Call** Included in the deposits at call are US dollar term deposits for U\$58,871,121 which has been converted to Australian dollars, for recording purposes only, at a rate of 0.6928 (the USD/AUD exchange rate on the last day of the period).

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Note 1

Schedule of Exploration Permits

Held by the Consolidated Entity

At 31st December 2008

<u>Exploration Permits</u>	<u>Basin</u>	<u>Operator</u>	<u>Status</u>	<u>Interest %</u>
WA-314-P	Browse	ConocoPhilips		49
WA-315-P	Browse	ConocoPhilips		49
WA-398 P	Browse	ConocoPhilips		40
Brazil Permit 1037	Santos	Karoon		100
Brazil Permit 1101	Santos	Karoon		100
Brazil Permit 1102	Santos	Karoon		100
Brazil Permit 1165	Santos	Karoon		100
Brazil Permit 1166	Santos	Karoon		100
Peru Permit Z 38	Tumbes	Vamex*		20
Peru Permit 144	Tumbes	Karoon	Pending Regulatory Approval	100
AC/P8	Bonaparte	Karoon		66.67
EL 4537	Gippsland	Karoon		100

*Karoon to assume Operatorship after completion to 2D and 3D Seismic Surveys in Z-38.